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*Should any information in this
newsletter conflict with statute or rule,
the statute or rule will apply.*

PERB Addresses Funding Shortfalls

The Montana Public Employees' Retirement Board (PERB) is responsible for fiducially administering its retirement plans and trust funds, acting in the best interest of the members and beneficiaries. Based on the actuary's review of our systems, the Public Employees' Retirement System (PERS), Sheriffs' Retirement System (SRS), and Game Wardens' and Peace Officers' Retirement System (GWPORS), do not amortize. Because we have a responsibility to ensure that our retirement systems are sound, the PERB has submitted three bills to address the projected shortfalls.

HB 134 – Proposes revision to benefits and funding for GWPORS:

- ◆ Increases the highest average monthly compensation used to calculate retirement benefits from 36 to 60 months for new hires.
- ◆ Increases employers' contributions on **all** GWPORS-covered payroll from 9% to 10% beginning July 1, 2011 and then to 11% beginning July 1, 2012.

HB 135 – Proposes revision to benefits and funding for SRS:

- ◆ Increases the highest average monthly compensation used to calculate retirement benefits from 36 to 60 months for new hires.
- ◆ Increases employers' contributions for **all** SRS-covered payroll from 10.115% to 11.115% beginning July 1, 2011 and then to 12.115% beginning July 1, 2012.

HB 122 – Proposes revision to benefits and funding for PERS:

- ◆ Increases the highest average monthly compensation used to calculate retirement benefits from 36 to 60 months for new hires.
- ◆ Increases normal retirement age from age 60 to 65 for new hires.
- ◆ Increases the age of eligibility for early retirement for new hires from age 50 to age 55 with 5 years of membership service.
- ◆ Eliminates early retirement based on years of service for new hires.
- ◆ Increases employee's contributions for new hires from 6.9% to 7.9% starting July 1, 2011 and then to 8.9% beginning July 1, 2012.
- ◆ Increases employers' contributions for **all** PERS-covered payroll from 7.17% to 8.17% beginning July 1, 2011 and then to 9.17% beginning July 1, 2012.

In addition, the PERB has submitted a bill to address funding issues related to PERS, SRS and FURS by requesting employer contributions for working retirees.

HB 85 – Proposes collection of employer contributions for retirees who return to work.

- ◆ Requires employers' contributions for retired members who return to work in a covered position where new hires would be contributing.

The PERB also proposed two general housekeeping bills—one revising the Volunteer Firefighters Compensation Act and another revising laws related to PERS. Through these efforts, the PERB hopes to meet its fiduciary responsibility by ensuring the stability of the retirement systems and providing secure retirement benefits for all of our members. ◆



MPERA-Administered Retirement Systems

MPERA administers eight different retirement systems and the State's 457 Deferred Compensation Plan.



Public Employees' Retirement System (PERS)-Defined Benefit Retirement Plan (DBRP) is a multiple-employer, cost-sharing plan established July 1, 1945 and is governed by Title 19, chapters 2 & 3, MCA. This plan covers 46,346 active and retired employees of the state and local governments and certain employees of the university system and school districts. The PERS-DBRP provides retirement, disability, and death benefits to plan members and their beneficiaries. Benefits are based on eligibility, years of service and highest average compensation.

The **PERS-Defined Contribution Retirement Plan** is a multiple-employer plan established July 1, 2002 and is governed by Title 19, chapters 2 & 3, MCA. This plan covers 2,022 active and retired employees of state and local governments and certain employees of the university system and school districts. The PERS-DCRP provides retirement, disability, and death benefits to plan members and their beneficiaries.

All new hires are initially members of the PERS-DBRP and have 12 months to choose to remain in the DBRP or join the DCRP. The choice is irrevocable. **Members may not be members of both the DBRP and the DCRP.** Current contribution rates are 6.9% for members and 7.17% for employers.



Judges' Retirement System (JRS) is a single-employer defined benefit plan established in 1967 and governed by Title 19, chapters 2 & 5, MCA. This system provides benefits for 106 active and retired Montana judges of the district courts, justices of the Supreme Court and the Chief Water Judge. The JRS provides retirement, disability and death benefits to plan members and their beneficiaries. Current contribution rates are 7% for members and 25.81% for the employer.



Highway Patrol Officers' Retirement System (HPORS) is a single-employer, defined benefit plan established July 1, 1971 and governed by Title 19, chapters 2 & 6, MCA. HPORS covers 525 active and retired employees of the Montana Highway Patrol, including supervisory personnel. The HPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Current contribution rates are 9.05% for members, 26.15% for the employer and 10.18% for the State.



Sheriffs' Retirement System (SRS) is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974 and governed by Title 19, chapters 2 & 7, MCA. SRS covers 1,596 active and retired Department of Justice criminal and gambling investigators hired after July 1, 1993, all detention officers hired after July 1, 2005 and all Montana sheriffs. The SRS provides retirement, disability and death benefits to plan members and their beneficiaries. Current contribution rates are 9.245% for members and 10.115% for employers.



Game Wardens' and Peace Officers' Retirement System (GWPORS) is a multiple-employer, cost-sharing defined benefit plan established July 1, 1963 and governed by Title 19, chapters 2 & 8, MCA. GWPORS covers 1,102 active and retired persons employed as game wardens, warden supervisors or state peace officers. The GWPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Current contribution rates are 10.56% for members and 9.00% for employers.



Municipal Police Officers' Retirement System (MPORS) is a multiple-employer, cost-sharing defined benefit plan established July 1, 1974 and governed by Title 19, chapters 2 & 9, MCA. MPORS covers 1,397 active and retired municipal police officers employed by first- and second-class cities and other cities that adopt the plan. The MPORS provides retirement, disability and death benefits to plan members and their beneficiaries. Current contribution rates are 9.00% for most members, 14.41% for employers and 29.37% for the State.

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Firefighters' Unified Retirement System (FURS) is a multiple-employer, cost-sharing defined benefit plan established in 1981 and governed by Title 19, chapters 2 & 13, MCA. FURS covers 1,116 active and retired firefighters employed by first- and second-class cities, other cities and rural fire district departments that adopt the plan, and firefighters hired by the Montana Air National Guard on or after October 1, 2001. FURS provides retirement, disability and death benefits to plan members and their beneficiaries. Current contribution rates are 10.70% for most members, 14.36% for employers and 32.61% for the State.



Volunteer Firefighters' Compensation Act (VFCA) is a statewide retirement and disability plan established in 1965 and governed by Title 19, chapter 17, MCA. All members are unpaid volunteers. The VFCA provides pension, disability and survivorship benefits to 3,464 active and retired volunteer firefighters who are members of qualified volunteer fire companies in unincorporated areas, towns or villages, and includes volunteer fire departments, fire districts, and fire service areas under the laws of the State of Montana. VFCA also provides limited benefits for death or injuries incurred in the line of duty. The State of Montana is the only contributor to the plan.

Deferred Compensation 457 Plan is a voluntary supplemental retirement savings plan established in 1976 and is governed by Title 19, chapter 50, MCA in addition to Section 457 of the IRC. All employees of the State, the Montana University System and contracting political subdivisions are eligible to participate. Assets are required to be held in trust for the exclusive benefit of participants and their beneficiaries. Participants elect to defer a portion of their salary, which does not become available to employees until separation from service, retirement, death or an unforeseen emergency. There are currently 8,090 participants in the deferred compensation plan. ♦

MPERA as a Resource

MPERA encourages all legislators to contact us directly with questions regarding the retirement systems we administer. Working together ensures that retirement systems are able to provide benefits for all members. Please call or email at:

444-3154 or mpera@mt.gov

For more information regarding retirement benefits, please visit:

<http://mpera.mt.gov>, <http://nasra.org/resources/dbdcissues.htm> and <http://www.nirsonline.org/> ♦

**We will efficiently provide quality benefits,
education and service to help our plan members
and beneficiaries achieve a quality retirement.**

~ MPERA Mission Statement

Retirement Legislation

Historically, Montana leaders have recognized their responsibility as an employer to provide retirement benefits for public employees. Established in 1945, the Public Employees' Retirement System (PERS) Defined Benefit (DB) Plan has been instrumental in providing state, local government and certain university and school district employees with a retirement benefit to supplement social security and their personal savings. Recognizing the diverse needs of the state's employees, Judges' (JRS), Highway Patrol (HPORS), Sheriffs' (SRS), Firefighters' (FURS), Game Wardens' and Peace Officers' (GWPORS), and Municipal Police Officers' (MPORS) systems were established between 1963 and 1981. The retirement plans have long been a tool used to recruit and retain qualified employees. With pension plans across the nation under scrutiny it is important for everyone; employees, employers, the board and the legislature, not to forget that retirement plans and benefits are a long-term commitment that can span more than 60 years. The goal of all retirement plans is to provide personal income security and economic stability. As retirement professionals and state leaders we need to balance the risks and responsibilities of retirement planning with public policy that meets the needs of the state, our employees and employers for generations to come.

Presenting Solutions

The Montana Constitution charges the state with maintaining retirement plans on an actuarially sound basis in order to protect members' future benefits. To help address the funding shortfalls, the Public Employees' Retirement Board (PERB) has introduced HB 122, HB 134 and HB 135. Several legislative proposals have also been drafted by members of the Legislature to revise the retirement plans for all new employees. Some proposals recommend a mandatory Defined Contribution (DC) Plan.

Switching to a DC only plan may appear to take the initial burden off of the state to provide lifetime benefits for retirees. However, the switch is likely to create a different set of problems that do not completely resolve the state's burdens: the unfunded liability still remains and will continue to grow as contributions decline. Also, retirees who have not accumulated adequate funding could end up on public assistance.

Funding Concerns

There is no question that the economic recession of 2008 and 2009 eroded the funding status of the PERS, SRS, and GWPORS. The current unfunded liabilities within the three plans must be addressed in order to meet future benefit obligations.

It's important to remember that the market decline and subsequent recession, did not just impact the Montana retirement plans. Economists and financial professionals are calling the past ten years "the lost decade" for the baby boomers. This generation, already ill-prepared for their looming retirement has lost precious time to accumulate and grow future retirement assets; time which will never be recovered.

Employees in the private sector, whose retirement savings are held in company 401(k) defined contribution plans, not only faced a decline in their account balance due to the fall of the stock market, but also saw the elimination of employer matching funds. In addition, those same private sector employees, self-directing their retirement investments, reacted emotionally during the market decline, selling investments at the wrong time which may have compounded the losses they experienced in their 401(k) accounts.

Defined Contribution Plan Summary

A DC plan option was added to PERS on July 1, 2002. DB plan members and new employees were given one year to either remain in the existing DB plan or transfer their contributions, and a portion of employer contributions, to the new DC plan. The Montana Public Employee Retirement Administration (MPERA)

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created an extensive education plan advising members of their options and educating them on self-directed retirement planning. At the end of the initial transfer period, only 841 out of 27,189 DB members chose to transfer funds to the new DC plan. Of the 5,094 employees hired during the initial transfer period, only 79 employees elected to join the DC plan. As of June 30, 2010 the PERS DC plan had only 2,018 active participants.

Why don't more employees elect to participate in the existing DC plan? It may be because the average age of a current PERS member is 47. DC plans can be effective for younger employees who have longer investment timelines, allowing them the advantage of spending more time in the financial market. Minimal DC participation can also be related to lack of knowledge or interest about choosing appropriate investment options and managing individual risk. Developing a retirement strategy, understanding investment risk, and making investment choices, takes willingness to learn to be a proactive saver, and significant time (years) in the market in order to accumulate enough money to generate 25 to 30 years of retirement income. The difficulty lies with the wide range of learning types, the diversity of abilities to understand financial investing strategies, investment risk and understanding that retirement planning is a long term goal that needs constant attention. DC plans are a great option for employees who have a long time to save and invest in their accounts and for employees who do not plan on working for the same employer for the long-term and need a portable retirement vehicle.

Conclusion

It's clear that no one plan is ideal for everyone. The unfunded liability that exists in our plans cannot be ignored simply by implementing a mandatory DC plan. We hope the legislature will carefully evaluate the provisions recommended in HBs 122, 134 and 135. These bills are the first step in reducing the unfunded liability while maintaining a long-term sustainable DB plan. As additional options are presented during this legislative session, we would like to remind state leadership that the purpose of offering retirement plans is to provide personal income security and economic stability. Good public policy related to our retirement plans will help to meet the needs of the state, our employees and employers for current and future generations.

Information for this article was obtained from the following links:

<http://nasra.org/resources/dbdcissues.htm> ♦

Section 15. Public retirement system assets. (1) Public retirement systems shall be funded on an actuarially sound basis. Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses.

Constitution of Montana -- Article VIII Sec. 15

Did You Know?

How Pensions Benefit Your District

Last year, MPERA paid over \$250 million dollars in benefits to retirees. Of the approximately 21,000 retired members of the MPERA-administered defined benefit retirement systems, 89% chose to stay in Montana. Retirees reside in every Montana county.

What does this mean? The money received by retirees helps pay taxes and support local businesses. Stable retirement incomes are essential for Montana communities and act as an economic stabilizer. The chart below shows how much retirees in each county received from January 2010 to December 2010:

County	\$ Benefit	County	\$ Benefit	County	\$ Benefit
BEAVERHEAD	2,213,456	GRANITE	907,217	POWELL	3,839,988
BIG HORN	1,108,009	HILL	3,810,572	PRAIRIE	579,301
BLAINE	967,270	JEFFERSON	7,163,032	RAVALLI	5,340,824
BROADWATER	1,350,419	JUDITH BASIN	395,710	RICHLAND	1,594,396
CARBON	2,122,782	LAKE	4,984,363	ROOSEVELT	1,699,412
CARTER	273,198	LEWIS & CLARK	52,777,381	ROSEBUD	1,436,053
CASCADE	19,841,515	LIBERTY	381,308	SANDERS	1,578,538
CHOUTEAU	925,935	LINCOLN	2,635,640	SHERIDAN	964,505
CUSTER	4,956,849	MADISON	1,771,885	SILVER BOW	12,025,150
DANIELS	471,514	MCCONE	393,431	STILLWATER	1,451,444
DAWSON	3,302,802	MEAGHER	576,043	SWEET GRASS	774,868
DEER LODGE	6,932,157	MINERAL	1,092,635	TETON	1,626,249
FALLON	716,851	MISSOULA	22,079,769	TOOLE	1,206,390
FERGUS	3,902,228	MUSSELSHELL	794,494	TREASURE	192,242
FLATHEAD	13,806,581	PARK	2,610,412	VALLEY	2,351,330
GALLATIN	14,917,125	PETROLEUM	154,347	WHEATLAND	487,188
GARFIELD	242,435	PHILLIPS	1,028,214	WIBAUX	454,593
GLACIER	1,599,705	PONDERA	1,384,301	YELLOWSTONE	28,148,320
GOLDEN VALLEY	280,250	POWDER RIVER	485,803	TOTAL	\$ 251,108,429

State Administration and Veterans' Affairs (SAVA) Committee

During each legislative session, legislators identify issues they want to study in more depth. They appoint interim committees to conduct these studies during the legislative interims. The committees often invite experts to present information to them. Members of the public also get a chance to have their say.

The 2009 legislature passed House Bill 659 charging the State Administration and Veteran's Affairs (SAVA) interim committee with examining and recommending changes to the Public Employees' Retirement System (PERS) and examining and developing legislation for a redesign of the Teachers' Retirement System (TRS) while ensuring a guaranteed benefit in retirement.

⇒ The direction from the legislature was to consider changes to the statewide retirement funds including, but not limited to changes in the benefit formula multiplier for each year of service and the minimum age and/or years of service at which a member is eligible for full retirement benefits, or reduced, early retirement benefits.

A consultant was hired and throughout the 2009-2010 interim SAVA studied these issues. The consultant was given tasks for a four-meeting schedule and the committee members were to make decision points. The tasks and decision points were:

- ◆ Task 1: Review and present information on plan design policy goals.

⇒ Decision point 1: Establish plan design policy goals

- ◆ Task 2: Based on SAVA's policy goals, develop, analyze, and recommend potential design alternatives.

⇒ Decision point 2: Select 2-3 potential design alternatives for TRS and PERS on which further analysis will be performed by the consultant

- ◆ Task 3: In-depth analysis of potential design alternatives

⇒ Decision point 3A: Select at least one TRS potential design alternative to forward to the TRS actuary for cost analysis; and

⇒ Decision point 3B: Select at least one PERS potential design alternative to forward to the PERS actuary for cost analysis.

- ◆ Task 4: Confirm final cost analysis

⇒ Decision point 4: Make final recommendations to the Legislature; request that any necessary implementing legislation be drafted by legislative staff for the 2011 Legislative session.

In August 2010, SAVA proposed two alternative designs for the TRS to the 2011 legislature. SAVA moved the Public Employee Retirement Board's proposals forward with a recommendation that the funding and plan design changes be considered separately. ◆

The Public Employees' Retirement Board will fiducially administer its retirement plans and trust funds, acting in the best interest of the members and beneficiaries.

~ PERB Mission Statement

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